

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 LIMA 005333

SIPDIS

SENSITIVE

USTR FOR AUSTR VARGO AND BHARMAN

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EINV](#) [EFIN](#) [KIPR](#) [PGOV](#) [PREL](#) [PE](#)

SUBJECT: PERUVIANS WANT QUICK CONGRESSIONAL VOTE ON U.S. TRADE AGREEMENT

REF: LIMA 4777 AND PREVIOUS

11. (SBU) Summary: The GOP and supporters of the Peru Trade Promotion Agreement believe it is imperative that the current Peruvian Congress vote on the agreement before the new Congress and President are inaugurated in July 2006. The current Congressional Members are familiar with and are favorably disposed toward the trade accord. Many well-informed observers believe it critical that the trade agreement commitments be in place by the time the new government takes charge on July 28. Public commentary about the free trade agreement, concluded December 7, has been largely positive. While GOP negotiators have become regulars on radio and TV talk shows promoting the trade deal, opponents appear desperate to find arguments against the trade accord. End Summary.

Congressional Approval: The Sooner, The Better

12. (SBU) Supporters of the free trade agreement want the present Congress to vote on the accord before the July 28, 2006 inauguration of the next President and Congress. Former Trade Vice Minister and now consultant Jaime Garcia noted that this Congress is familiar with the details, having participated at negotiating rounds over the past 19 months. Moreover, agreement supporters do not want to start from scratch to educate Members of the new Congress, which may not be as favorable on the trade deal as the current Congress.

13. (U) Trade Minister Ferrero and others have stated that a trade vote between the April 9 election and the May 7 Presidential run-off (in case no candidate receives more than 50 percent during the first round) would be ideal. By waiting to approve the free trade agreement until after the April 9 election, Members of Congress could vote their conscience on the trade accord without any consequence to their electoral bids.

14. (SBU) There are some in Congress, such as APRA party Congressman Mauricio Mulder, who advocate that the next Congress (inaugurated on July 28) vote on the U.S. trade deal -- not the current Congress. (Comment: APRA does not want the trade agreement to become an electoral issue, as this could fuel the campaign of ultra-nationalist Ollanta Humala. The party would probably agree to Congressional consideration after the May 7 run-off. End Comment.)

15. (U) Business daily Gestion on December 15 quoted Prime Minister Kuczynski as favoring congressional handling of the agreement as early as possible. The Prime Minister argued that Peruvian exporters, such as clothing manufacturers, have to consider orders that will be placed by June 2006. If the agreement is not approved by then, Peruvian exporters could begin to lose business. Kuczynski also stressed that the debate for approval of the agreement will have to counter a "mercantilist current" of certain Peruvian businesses such as sugar producers.

Humala Factor

16. (SBU) The meteoric rise of Presidential aspirant and former military commander Ollanta Humala in a recent Apoyo poll -- second place showing with 22 percent behind poll leader Lourdes Flores -- has added urgency to several trade deal supporters. Patricia Teullet, export/import association Executive Director and a former Finance Ministry Vice Minister, told us it is important to have Peruvian Congressional approval of the trade deal before the April 9 national elections. Teullet and others believe that it is critical to lock in the trade agreement commitments before the potential election of pro-Humala Members of Congress.

President Toledo's Legacy: A U.S. Trade Deal

17. (U) President Toledo proudly broadcast two nation-wide press events on December 7 and 9 to highlight the Peru Trade Promotion Agreement. The President invited the Ambassador

to attend the latter conference with the entire GOP negotiating team. Toledo assured Peruvians that compensation would be available for those that are negatively impacted by the free trade agreement. Citing a trade association study, Toledo claimed that the accord would generate 6 million jobs over 10 years. (Note: the study estimated 5.7 million new formal jobs -- of that 2.7 million are informal jobs that would become part of the formal economy.) The President added that the agreement expands ATPA benefits by providing duty-free access to about 40 percent more products.

Positive Public Reaction -----

18. (U) Press accounts of the Peru trade agreement have been largely positive. Leading newspapers, such as "El Comercio," "Peru 21," and "Expreso," have published favorable editorials about the trade accord complementing President Toledo for pursuing the deal with the United States. A poll cited in "Expreso" indicated that 92 percent of 240 business leaders consulted support the U.S. trade deal. A poll in "El Comercio" on December 11 noted that 58 percent of those contacted believe the FTA is beneficial to Peru. Thirty-one percent expressed disapproval.

Getting the Word Out -----

19. (U) Trade Minister Alfredo Ferrero, Chief Trade Negotiator Pablo de la Flor, Agriculture Minister Manuel Manrique, and the Prime Minister's Chief of Staff Cecilia Blume have been active on the radio and television program circuit. Each has said that the FTA on balance is very positive for Peru, consolidating ATPDEA benefits for asparagus and other key exports. Ferrero highlighted that the deal expands beyond ATPA benefits; for example, Peruvian textiles would enter the United States duty-free once the agreement is in force, in addition to apparel products.

110. (U) When questioned about U.S. market access to Peru's sensitive agriculture products, De la Flor noted the long tariff phase out periods and emphasized that the quotas are small, representing only a small percentage of Peru's total production. Health Minister Pilar Mazzetti indicated that the health sector has been protected. She highlighted that second-use patents are not part of the agreement and that she helped secure an exemption from data protection in case of a national medical emergency. Mazzetti added that she would defend the trade deal when it is debated in Congress. The GOP team all claim victory on maintaining the ban on the importation of used clothing.

111. (U) Think tanks and private banks have issued reports indicating that the trade accord should help Peru combat poverty and improve the country's investment climate.

Critics Hurting for Arguments -----

112. (U) Trade deal critics appear desperate for arguments and recently have focused on the absence of a public text, accusing the government of hiding something. The GOP first announced that the text would be ready in 15 days -- it now states three weeks. The government began issuing brief chapter summaries of the accord on December 12.

113. (U) To the critics' relief, the Trade Ministry has stopped its radio and television ads promoting the free trade agreement pursuant to a law that prohibits paid government commercials during the electoral campaign. In a December 14 radio interview, Trade Minister Ferrero said that, "it's now up to those who will benefit most from the agreement to defend it, the private sector, small and medium enterprises and the farmers."

114. (U) Trade agreement critic Congressman Javier Diez Canseco (uncle of Trade Minister Ferrero) claims that Peru has disadvantaged its Andean partners -- Ecuador and Colombia -- by going it alone. He also argues that through this deal, Peru will relinquish its sovereignty and restrict its economic policy making ability. Diez Canseco argues that the agreement would alter the Constitution; therefore two consecutive Congresses need to approve the necessary Constitutional Amendments. (Note: Informed observers tell us that the accord will require revisions of laws, but no change to Peru's constitution.)

115. (U) The sugar association asserts that the trade agreement will bankrupt their industry, blaming U.S. imported, duty-free high fructose corn syrup. Prime Minister Kuczynski effectively debunked this claim in press remarks reported December 15 when he stressed that despite the fact that fructose currently has a low 4 percent duty in Peru, only \$54,000 worth was imported into Peru in 2004.

¶16. (U) The small farmers association, CONVEAGRO, claims that the treaty affects 99.9 percent of Peru's agriculture sector and that the government went beyond its self-imposed red lines. This is an argument that has been repeated by other trade deal opponents. CONVEAGRO repeatedly argues that the agreement, which maintains U.S. agricultural subsidies, provides unfair advantages to the United States. Chief Trade Negotiator De la Flor explained that WTO negotiations on agricultural supports and subsidies are ongoing and will be dealt with in the WTO forum. There are fiscal constraints and pressures within the United States to eliminate this aid to U.S. farmers, De la Flor emphasized on a talk show.

Comment: Time Constraint for Toledo

¶17. (SBU) The GOP is eager for the U.S. executive to notify Congress of its intention to sign the trade pact. An early notification has advantages, including increasing pressure for the GOP to resolve pending commercial disputes, notably Engelhard. Moreover, an early signature by the parties would permit time to secure the Peruvian Congressional approval before the next government assumes power in late July. Members of Congress undoubtedly would prefer to vote on the trade deal after the May 7 Presidential run-off. This would give them sufficient time to approve the agreement before they leave office. This timetable would also enable the GOP to renew FTA-related paid publicity, as the prohibition on government advertising during the campaign would have ended.

STRUBLE